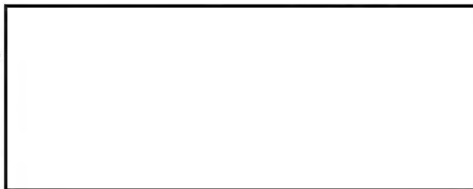


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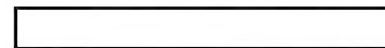
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10 May 1957

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134

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25X1

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25X1A

CONTENTS

- ND 1. BRITISH REACH DRAFT AGREEMENT WITH EGYPT ON
TOLLS [REDACTED]

25X1A

[REDACTED]

25X1

- OK 3. NICARAGUA TO RETALIATE AGAINST ANY HONDURAN
CEASE-FIRE VIOLATIONS [REDACTED]

25X1A

25X1A

- OK 4. DJAKARTA GOVERNMENT ARRESTS SUMATRAN OFFICIALS
[REDACTED]

25X1A

- OK 5. GHANA FINANCE MINISTER GBEDEMAH SUBMITS RESIG-
NATION [REDACTED]

ANNEX--Conclusions of the Watch Report of the Intelligence
Advisory Committee [REDACTED]

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25X1A

10 May 57

Current Intelligence Bulletin

Page 2

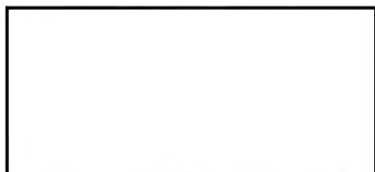
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**1. BRITISH REACH DRAFT AGREEMENT WITH EGYPT
ON TOLLS**

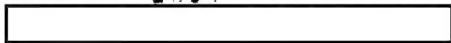
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Discussions in Basel between British and Egyptian banking representatives on payment of canal tolls in sterling have terminated successfully, Assistant Under Secretary Beeley of the British Foreign Office informed the American embassy on 8 May. The British hope that the Egyptian representatives, now returning to Cairo, will soon obtain Nasr's approval.

Comment

The British have maintained that successful conclusion of the negotiations, begun on 5 May, must precede their public acceptance of the Egyptian canal declaration. Details of the agreement were not given. Earlier in the negotiations the British were reported unwilling to release the Egyptian sterling, estimated at \$73,000,000, which they blocked when the canal was nationalized. Cairo, on the other hand, might hold out for the release of additional sterling balances of about \$230,000,000 blocked since World War II.

British shipowners are scheduling numerous transits in the expectation that toll payments in sterling will be sanctioned shortly. 

25X1A

10 May 57

Current Intelligence Bulletin

Page 3

25X1A



25X1

Approved For Release 2002/11/19 : CIA-RDP79T00975A003100140001-1

Approved For Release 2002/11/19 : CIA-RDP79T00975A003100140001-1

25X1A

3. NICARAGUA TO RETALIATE AGAINST ANY HONDURAN CEASE-FIRE VIOLATIONS

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25X1A

The American army attaché in Managua believes Nicaraguan forces will retaliate against any Honduran breaches of the cease-fire arranged by the special committee of the Organization of American States (OAS). General Anastasio Somoza, chief of the Nicaraguan national guard, told him on 8 May that Honduran troops along the border have been foraging for food inside Nicaragua. Somoza complained of the slow OAS action to halt these forays and of the "dictatorial" manner in which the chief of the team of military observers attached to the OAS committee has been attempting to enforce certain cease-fire terms to which Nicaragua has not agreed.

An investigation at the border on 8 May by the OAS military team reportedly did not substantiate Honduran allegations of a 7 May cease-fire violation by Nicaraguan troops. Meanwhile, the OAS committee has submitted its plan for troop withdrawals to each government.

Communists in Honduras and Nicaragua have jumped on the patriotic bandwagons in their respective countries. Nicaraguan president Somoza recently expressed concern at the part Communists have been playing in arousing public opinion on the dispute with Honduras. In Honduras, the Communists are giving full support to the military junta, hoping thus to consolidate their recent gains,

25X1

25X1

10 May 57

Current Intelligence Bulletin

Page 5

25X1A

25X1A

25X1A

**4. DJAKARTA GOVERNMENT ARRESTS
SUMATRAN OFFICIALS**

25X1A

25X1A

The Indonesian government's arrest in Djakarta on 9 May of the Central Sumatran representative there and the reported earlier arrest of 11 visiting members of the

South Sumatran governing council are the boldest moves yet taken by the central government against the provinces. The arrests are expected to intensify provincial resentment, already aggravated by Sukarno's decree on 8 May imposing rule by a national council. They probably will further stimulate the desire of Central and South Sumatra for a final break with Djakarta.

This action will probably preclude any further friendly negotiations between Djakarta and the disaffected provinces. As recently as 29 April, army commanders and governors from the outer islands consulted in Djakarta without being molested.

25X1A

10 May 57

Current Intelligence Bulletin

Page 6

25X1A

25X1A

**5. GHANA FINANCE MINISTER GBEDEMAH
SUBMITS RESIGNATION**

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25X1A

Ghana's conservative finance minister
Gbedemah has submitted his resignation
to Prime Minister Nkrumah,

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If the dif-

ferences over economic policies between the two leading
members of the government result in an open break, the
Nkrumah government would probably fall.

Gbedemah has resisted Nkrumah's deci-
sion to lower the price paid to the influential cocoa growers.
Gbedemah, who reportedly has strong popular and party sup-
port, might form a loose coalition with the hinterland opposi-
tion groups, and create a new government.

In any event, Nkrumah is likely to rely
increasingly on extremist elements, with a consequent rise
in instability in Ghana.

10 May 57

Current Intelligence Bulletin

Page 7

25X1A

25X1A

ANNEX

Watch Report 353, 9 May 1957
of the
Intelligence Advisory Committee

Conclusions on Indications of Hostilities

On the basis of findings by its Watch Committee, the Intelligence Advisory Committee concludes that:

- A. No Sino-Soviet bloc country intends to initiate hostilities against the continental US or its possessions in the immediate future.
- B. No Sino-Soviet bloc country intends to initiate hostilities against US forces abroad, US allies or areas peripheral to the Orbit in the immediate future.
- C. Early deliberate initiation of hostilities by Israel or the Arab states is not probable. Although incidents continue between the Arab states, within certain Arab states, and between Arab states and Israel, these are not likely to lead to serious conflict in the immediate future.

25X1

10 May 57

Current Intelligence Bulletin

Page 8

25X1A

